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Before the  
**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, DC 20554

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MAY 29 1998

In the Matter of	)	
	)	
Federal State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	
	)	
Forward-Looking Mechanism For	)	CC Docket No. 97-160
High Cost Support	)	DA 98-715

**REPLY COMMENTS OF U S WEST COMMUNICATIONS, INC.  
ON PROPOSALS TO REVISE THE METHODOLOGY  
FOR DETERMINING UNIVERSAL SERVICE SUPPORT**

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May 29, 1998

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## SUMMARY

The Commission should adopt the Interstate High Cost Affordability Plan ("IHCAP") as the alternative to the 25/75 Plan to provide support in high-cost areas served by non-rural LECs. It is uniquely suited to targeting federal support where support is needed the most -- to the supra high-cost areas in each state. It is consistent with the Commission's goals, because it builds upon, rather than replaces, the 25/75 Plan.

The IHCAP also preserves the states' role in funding their fair share of universal service support. It is simple and it can be implemented for non-rural LECs in all states by January 1, 1999.

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**REPLY COMMENTS OF U S WEST COMMUNICATIONS, INC.  
ON PROPOSALS TO REVISE THE METHODOLOGY  
FOR DETERMINING UNIVERSAL SERVICE SUPPORT**

U S WEST Communications, Inc. ("U S WEST") hereby submits reply comments in response to the Federal Communications Commission's ("Commission") Public Notice requesting comments about proposals which have been submitted to modify the Commission's approach to determining support for non-rural carriers providing service to customers located in high-cost, rural, and insular areas.<sup>1</sup>

I. INTRODUCTION

In its Report to Congress, the Commission made the commitment to reconsider the share of federal support before implementing the new high-cost

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<sup>1</sup> Public Notice, Common Carrier Bureau Seeks Comment on Proposals to Revise the Methodology for Determining Universal Service Support, CC Docket Nos. 96-45 and 97-160, DA 98-715, rel. Apr. 15, 1998. Comments filed herein, May 15, 1998.

support mechanism for non-rural local exchange carriers ("LECs").<sup>2</sup> This is critical for the non-rural LECs and the states, because the Commission's 25/75 Plan does not now ensure that universal service mechanisms will be "specific, predictable, and sufficient" and that rates will be "just, reasonable, and affordable."<sup>3</sup>

Because the purpose of this phase of the Universal Service Docket is to reconsider the share of federal support that non-rural LECs will receive beginning January 1, 1999, this reconsideration should focus on a modification which: (1) embraces the shared universal service responsibilities of both federal and state regulators, (2) targets the supra high-cost areas in all states with federal support, and (3) can be implemented for non-rural LECs by January 1, 1999.

Many commenters chose to address principles<sup>4</sup> rather than definitive proposals. Some offer bold plans which would reject or overturn much of what the Commission has decided thus far.<sup>5</sup> Some combine rural LECs and non-rural LECs together under the same high-cost support mechanism, even though there are substantial differences in the needs of the two.<sup>6</sup> Some believe that implementation

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<sup>2</sup> In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report to Congress, FCC 98-67, rel. Apr. 10, 1998 ("Report to Congress").

<sup>3</sup> 47 U.S.C. § 254(b).

<sup>4</sup> See, e.g., Competition Policy Institute ("CPI") at 5-7; Competitive Telecommunications Association ("CompTel"), generally; MCI Telecommunications Corporation ("MCI"), generally; Sprint Corporation ("Sprint") at iii.

<sup>5</sup> For example, the NARUC Ad Hoc Working Group, High Cost Support: An Alternative Distribution Proposal ("Ad Hoc Plan") filed herein, Apr. 27, 1998, shows a decided preference for using embedded costs rather than forward-looking costs. And see U S WEST Comments at 11-13.

<sup>6</sup> See, e.g., Ad Hoc Plan at 16.

of a federal high-cost support mechanism for non-rural LECs by January 1, 1999 is ill-advised.<sup>7</sup>

U S WEST believes that a manageable federal high-cost support mechanism, like the Interstate High-Cost Affordability Plan ("IHCAP"), offers the most credible compromise to these divergent views. U S WEST also believes that the IHCAP is the most responsive to the Commission's search for a reasonable alternative to the Commission's 25/75 Plan and that it best meets the intent of the 1996 Act to provide universal service support to high-cost areas.

## II. A HIGH-COST SUPPORT MECHANISM FOR RURAL LECS IS NOT THE SUBJECT OF THIS PHASE OF THE DOCKET

Several commenters, such as the NARUC Ad Hoc Working Group, ask the Commission to adopt an all-inclusive high-cost plan covering both non-rural and rural LECs.<sup>8</sup> Another equally large number of commenters, consisting of independent rural LECs, object to the Ad Hoc Plan because it would combine rural and non-rural LECs under the same support mechanism.<sup>9</sup> Rural LECs broaden their attack beyond any specific funding methodology when they object to the use of

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<sup>7</sup> See, e.g., AT&T at 5-7.

<sup>8</sup> See, e.g., Delaware Public Service Commission at 4-5; Maine Public Utilities Commission, Vermont Public Service Board, South Carolina Public Service Commission, Arkansas Public Service Commission, West Virginia Public Service Commission, New Hampshire Public Utilities Commission, and New Mexico State Corporation Commission ("Ad Hoc Commenters") at 10-11; Maryland Public Service Commission at 12-13; New York Department of Public Service at 1-2. However, some state commissions oppose the Ad Hoc Plan. See Public Utilities Commission of Ohio at 4; South Dakota Public Utilities Commission at 2-3.

<sup>9</sup> Western Alliance at 6-7; Rural Telephone Coalition at 4-7, 14-15; TDS Telecommunications Corporation ("TDS") at 10-13.

cost proxy models in favor of embedded costs as a basis for the rural LEC support mechanism.<sup>10</sup>

Participation by rural LECs in the high-cost support mechanism for January 1, 1999 and the use of cost proxy models for rural LECs are not relevant topics for consideration or debate during this reconsideration. The Commission made this clear in its Report to Congress when it said:

With respect to *rural* LECs, the Commission has determined that there shall be no change in the existing high cost support mechanisms until January 1, 2001 at the earliest. We do not revisit that determination in this Report. Thus, the method of determining federal support for rural local exchange carriers will remain unchanged until at least January 1, 2001, meaning that the amount of universal service support for rural local exchange carriers will be maintained initially at existing levels and then should increase in accordance with specified factors, such as inflation, that have historically guided changes in such support. Any possible change in the support mechanism for rural local exchange carriers would require a separate rulemaking proceeding.<sup>11</sup>

Accordingly, U S WEST believes that today's discussion should focus on the high-cost support mechanism for non-rural LECs and that proposals, and objections to proposals, for the high-cost support mechanism for rural LECs should await a separate rulemaking proceeding.

III. THIS PHASE OF THE DOCKET SHOULD FOCUS ON SPECIFIC PROPOSALS, RATHER THAN PHILOSOPHICAL PRINCIPLES, TO ENHANCE THE SUFFICIENCY OF THE COMMISSION'S 25/75 PLAN

The focus of this phase of the docket is narrow. The Commission said that the only issue which the Commission would reconsider is whether the Commission's

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<sup>10</sup> Western Alliance at 7-8; Small Western LECs (Evans Telephone Company, et al.) at 7-9; ITCs, Inc. at 2; TDS at 7-10.

<sup>11</sup> Report to Congress ¶ 20 (underline emphasis added).

25/75 Plan provides sufficient federal support for high-cost areas served by non-rural LECs. In its Report to Congress, the Commission said:

States and other affected entities have raised serious concerns about the extent of federal support for high cost areas. In this Report, we commit to reconsidering those aspects of the Universal Service Order prior to fully implementing high cost universal service mechanisms. We conclude that a strict, across-the-board rule that provides 25 percent of unseparated high cost support to the larger LECs might provide some states with less total interstate universal service support than is currently provided. The Commission will work to ensure that states do not receive less funding as we implement the high cost mechanisms under the 1996 Act. . . . We are committed to issuing a reconsideration order in response to the petitions filed asking the Commission to reconsider the decision to fund 25 percent of the required support amount.<sup>12</sup>

U S WEST supports the Commission's resolve to reconsider the share of federal support in this reconsideration proceeding. The Commission's attention should focus on that topic alone.

IV. IHCAP MODIFIES THE 25/75 PLAN TO ENSURE THAT FEDERAL HIGH-COST SUPPORT FOR NON-RURAL LECS WILL BE SUFFICIENT WITHOUT PUTTING UPWARD PRESSURE ON LOCAL RATES

The IHCAP proposed by U S WEST builds on the principles and the 25/75 Plan already developed by the Commission.

A. IHCAP Targets The Supra High-Cost Customer

The IHCAP, like the Commission's 25/75 Plan, leaves primary responsibility for most of the costs of universal service with the states. However, it provides an important enhancement to the Commission's methodology by stepping in to provide federal support above a Super Benchmark for supra high-cost customers in any

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<sup>12</sup> Id. ¶ 19.

state. All states have some customers who are costly to serve. The IHCAP fund will support very high-cost customers in all states. By removing the very high-end of the cost average, all states are left with a manageable universal service responsibility. Under IHCAP:

(1) The federal fund would provide no explicit federal support for loop costs which are \$30 or less. The states remain responsible for all forward-looking loop costs up to \$30.

(2) The federal fund would provide explicit support for 25% of forward-looking loop costs between a Primary Benchmark of \$30 and a Super Benchmark of \$50, and the states would provide support for 75% of the costs between these Benchmarks just as they would under the Commission's 25/75 Plan.

(3) For those supra high-cost areas where the per-customer cost of supporting universal service under the Commission's 25/75 Plan could become so high that service could become unaffordable, IHCAP will provide federal funding for all forward-looking loop costs above the \$50 Super Benchmark.

By leaving responsibility for most of these costs with the states, state regulators will be able to devise rate rebalancing and/or explicit funding plans which are right for their markets. IHCAP reduces the potential burden on customers in lower cost states, because it only requires them to contribute support for those customers who unquestionably will require assistance to retain affordable service.

**B.     The Federal Support Mechanism In The IHCAP Is  
Funded From Interstate Revenues**

Like the Commission's 25/75 Plan, the federal support mechanism for IHCAP would be funded by assessments on interstate end-user revenues. While the Commission has acknowledged that it may have authority to assess universal service contributions on both interstate and intrastate revenues of telecommunications providers,<sup>13</sup> assessments against intrastate revenues for the federal fund are not required for IHCAP.

**C.     IHCAP Is A Sufficient First Step In The Removal  
Of Implicit Subsidies**

The Texas PUC describes the IHCAP's approach to the removal of implicit subsidies as a "sufficient first step" in a process which begins now and "which will continue as additional subsidies are identified and as additional competition enters the market and drives costs down."<sup>14</sup> IHCAP provides a safety net under the high-cost customer as it begins to remove implicit support.

This first step to begin to remove implicit support with IHCAP offers an attractive alternative to the plans proposed by some commenters who would remove all implicit subsidies now resulting in the creation of a large federal fund.<sup>15</sup> While the need to address the totality of implicit support found in interstate access raised by other parties must be dealt with by the Commission, IHCAP addresses the imminent and urgent need to provide support to very high-cost customers. It also

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<sup>13</sup> Id. ¶ 18.

<sup>14</sup> Public Utility Commission of Texas at 4 ("Texas PUC").

<sup>15</sup> GTE Service Corporation at 4-6.

provides the “sufficient first step” to address implicit support in interstate access rates while maintaining a reasonable fund size. The IHCAP is also simple and can be implemented by January 1, 1999.

**D. State Commissions In Both Rural And Urban States Approve  
IHCAP’s Approach To High-Cost Support**

The California PUC believes that the IHCAP’s approach correctly addresses the problem: “[T]he federal fund should target exceptionally high cost areas that exceed some multiple of the nationwide average.”<sup>16</sup> “In general, while not subscribing to U S West’s specific parameters, California [PUC] believes that the underlying approach of the IHCAP in limiting federal responsibility for high cost areas through a benchmark mechanism is appropriate.”<sup>17</sup>

The Iowa Utilities Board supports the IHCAP, because it “targets and provides sufficient federal support to the highest cost areas without using statewide averages.”<sup>18</sup>

The Texas PUC also believes that IHCAP is the right approach:

This proposal [IHCAP], or a variation thereof, deserves further consideration. . . . While the Texas PUC does not necessarily support the 25% factor or the suggested benchmarks (\$30/\$50) discussed in U S West’s proposal, some other combination of factors and benchmarks might be used to appropriately size and equitably distribute the federal fund.<sup>19</sup>

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<sup>16</sup> People of the State of California and the Public Utilities Commission of the State of California (“California PUC”) at 5.

<sup>17</sup> Id. at 4.

<sup>18</sup> Iowa Utilities Board at 6.

<sup>19</sup> Texas PUC at 9.

## V. THE ANALYSIS OF THE IHCAP BY THE AD HOC COMMENTERS IS MISLEADING

Several parties filed comments in support of the Ad Hoc Plan.<sup>20</sup> The Ad Hoc Commenters make specific reference to the IHCAP proposed by U S WEST.

Specifically the Ad Hoc Commenters say:

US West has left ratepayers in some states with rates that will not be reasonably comparable to urban areas . . . if the US West plan were implemented, the results would be neither sufficient nor efficient.<sup>21</sup>

In support of their contention, the Ad Hoc Commenters present two tables showing two hypothetical "States." As demonstrated below, the hypothetical situation portrayed by the Ad Hoc Commenters is grossly unrepresentative of how actual telephone networks operate. Furthermore, the thesis by which the Ad Hoc Commenters criticize the IHCAP is fundamentally flawed.

Under the IHCAP, all costs for customers whose cost exceeds the "primary" benchmark receive explicit high-cost support to achieve the goal of affordable service. The key question (and the important differentiation of the IHCAP from the Commission's 25/75 Plan) is what portion of this funding is addressed by the state commission, and what portion is funded by all states nationally through an interstate fund established by the Commission. In the Ad Hoc Commenters' example, 75% of the costs of the \$45 per month customers in State A which exceed the primary benchmark would be funded at the state level (the remaining 25% would be funded at the interstate level). In State B where there are customers

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<sup>20</sup> Ad Hoc Commenters, generally.

<sup>21</sup> Id. at 8.

costing \$100 per month, 75% of costs up to \$50 per month would likewise be funded under the guidance of the Commission in State B. Only those costs between \$50 per month and \$100 per month would be assigned 100% to the interstate fund.

The example used by the Ad Hoc Commenters is misleading, at best. A careful examination of Table 2 shows that all customers in State A cost \$45 month, and there are no low-cost customers. For this to be true, all customers would need to be located a uniform five (5) miles from the central office, and no customers would be located in close proximity to the "central" office. In reality, efficient outside plant design places the central office at the center of population clusters, usually towns. Thus, in most real world cases the majority of customers are served by relatively short loops, and their cost is low. As distance from the central office increases and density of the serving area decreases, the cost of serving customers goes up.

In densely-populated states, the central offices are located close enough to each other that there are relatively few customers served by very long and costly loops. Likewise, the density and proximity of customers leads to proportionately more of the lower-cost customers. In more rural states, the distance between towns increases, leaving more customers served by longer and more costly loops. Also, more customers can be located outside of the central town cluster, decreasing customer density and also increasing cost.

What separates those states facing a difficult problem in solving their universal service responsibilities from those with an easier task is a relatively higher proportion of the high-cost customers, and lower proportions of the low-cost

customers. By removing the supra high-cost customers from the state funding equation, the field between states is leveled, and each state is left with a significant but solvable problem to assure affordable basic service to its citizens. Unlike some of the other plans,<sup>22</sup> the IHCAP establishes parity among the states through a simple, straightforward and fair mechanism utilizing two benchmarks.

## VI. CONCLUSION

The Commission should modify the share of federal support available for supra high-cost areas in all states by adopting the IHCAP. The IHCAP is specifically designed to target support to those areas which need additional federal assistance to preserve and advance universal service. It is competitively neutral. It maintains the states' role in sharing responsibility for funding universal service. It is straightforward and it can be implemented by January 1, 1999 for all non-rural LECs.

Respectfully submitted,

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<sup>22</sup> See, e.g., Additional Proposals, Comments of the South Dakota Public Utilities Commission, filed herein Apr. 24, 1998 at 2-5; Comments of the Colorado Public Utilities Commission Staff Regarding Options for Consideration, filed herein Apr. 27, 1998 at 2-4.

## **CERTIFICATE OF SERVICE**

I, Rebecca Ward, do hereby certify that on this 29<sup>th</sup> day of May, 1998, I have caused a copy of the foregoing **REPLY COMMENTS OF U S WEST COMMUNICATIONS, INC. ON PROPOSALS TO REVISE THE METHODOLOGY FOR DETERMINING UNIVERSAL SERVICE SUPPORT** to be served, via first class United States Mail, postage pre-paid, upon the persons listed on the attached service list.

  
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